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Ms. Pam Parker
Manager, Special Needs Purchasing
Minnesota Department of Human Services
540 Cedar Street
Elmer L. Anderson Human Services Building
St. Paul, MN 55155-3854

RE: Rate Development for the MSHO, MSC+, and CBP EW Add-on for CY 2010

Dear Pam:

This letter describes the development of the Elderly Waiver (EW) Add-on rates for the Minnesota Senior Health Options (MSHO), Minnesota Senior Care Plus (MSC+), and County Based Purchasing (CBP) programs for the calendar year (CY) 2010 contract period.

Overall, the CY 2010 EW Add-On rates provide an increase of 4.25% from the October through December 2009 EW Add-On rates for all rate cells. All of this increase is due to projected trend in EW costs from 2009 to 2010.

The layout of this letter was structured to describe all the information used to develop the CY 2010 base rates from the 2005 base experience while at the same time distinguishing the developmental components for the CY 2009 rate development, October through December 2009 rate adjustment, and the CY 2010 rate development. This approach was taken to allow the user to more easily understand what adjustments were new to the CY 2010 rate development.

CALENDAR YEAR 2005 MINNESOTA SENIOR CARE EW EXPERIENCE

The EW Add-on rates are based on CY 2005 EW experience. We used the experience of EW clients enrolled in the Minnesota Senior Care (MSC) program for their State Plan services in the rate development. Table 1 contains a comparison of the MSC per member per month (PMPM) EW costs from CY 2005 by geographical region.

Table 1 MSHO / MSC+ / CBP Rate Development Elderly Waiver Services Calendar Year 2005 MSC Experience PMPM	
Region	PMPM
Hennepin / Metro	\$1,041.16
Non-Metro	\$956.03
Statewide	\$984.72

This material assumes that the reader is familiar with Minnesota's Medicaid long term care and acute care programs, their benefits, eligibility, administration and other factors. The material was prepared solely to provide assistance to the Minnesota Department of Human Services in setting rates for the MSHO, MSC+, and CBP programs. It may not be appropriate for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. This material should only be reviewed in its entirety.

DEVELOPMENT OF CALENDAR YEAR 2009 EW ADD-ON BASE RATES

The following adjustments were made to the CY 2005 EW experience to develop to CY 2009 EW Add-on base rates.

Trends and Other Cost Adjustments

An annual trend of 5.5% was used to project the MSC CY 2005 EW experience to the CY 2009 rating period. This annual statewide trend for EW monthly costs per recipient was developed from information provided by the Reports and Forecast Division of the Minnesota Department of Human Services (DHS).

In addition, projected 2009 costs for EW services were increased to reflect 2.0% cost of living adjustments (COLAs) that were effective January 1, 2008 and July 1, 2008.

Please note, an adjustment was made to the EW program such that the limit on EW home modifications was increased to \$10,000 effective January 1, 2008. This increase was expected to increase EW costs however, based on discussions with DHS, we estimated the increase would be trivial (less than a 0.2% increase). In addition, DHS expects the home modification limit increase will result in a small reduction in nursing facility (NF) admissions, offsetting any increase in EW costs. Since the effect of this change is trivial for both the EW and NF rate setting, and since the adjustments would offset each other, no adjustment was made in either the EW or NF rate setting for 2009.

Integration of Elderly Waiver with Other Home Health Programs

The overlap of home health services covered under EW and those covered under Minnesota's State Plan is expected to result in a substitution of services that will cause projected EW costs to be less than that observed under FFS. Since 2004, managed care EW costs have been 11% to 13% lower than FFS EW costs, with these percentages projected to increase in the future. In addition, State data indicates significant differences between metro and rural areas in utilization patterns for State Plan home health costs (largely personal care assistance) and assisted living costs covered under EW. To partially reflect these relationships, we multiplied the 2009 EW Non-Metro rates by 0.96 and the 2009 EW Hennepin / Metro rates by 0.94.

Difference in Membership Characteristic in Metro versus Non-Metro Areas

Historically, characteristics of the Metro membership have been such that managed care EW utilization has been lower than the FFS base for these counties, resulting in a multiplicative adjustment of 0.85 to the rates in previous years. However, average FFS costs for the approximately 1,900 MSC members that transitioned to MSC+ in January 2009 were estimated to be 24.3% higher than current EW managed care members in the Metro area and the members that transitioned will account for approximately 26.6% of the EW managed care members in the Metro area. Therefore, in 2009 the Metro multiplicative adjustment changed from 0.85 to 0.9049 ($0.9049 = 0.85 \times (1 + (24.3\% \times 26.6\%))$) to reflect this transition.

Legislated Premium Tax

The MSHO and MSC+ CY 2009 EW rates were increased to include the legislated premium tax of 1%. The CBP 2009 EW rates do not include the premium tax adjustment.

DEVELOPMENT OF OCTOBER THROUGH DECEMBER 2009 EW ADD-ON BASE RATES

The following adjustments were made to the CY 2009 EW Add-on base rates to develop the October through December 2009 EW Add-on base rates, resulting in a 3.86% reduction in base rates.

Adjustment for EW Cost Limits

New legislation established monthly service cost limits for EW clients including a new case mix category with low dependencies in activities of daily living. This legislative change was estimated to decrease EW costs 0.41% for the MSHO / MSC+ / CBP populations, as estimated by DHS.

Adjustment for Service Rate Limits for 24-Hour Customized Living Services

New legislation modified service rate limits for 24-hour customized living services, capping them at the 95th percentile of 24-hour rates in effect on March 31, 2009 for each case mix resident class. The DHS is authorized to establish an alternative payment system by applying a single hourly rate for direct services provided in certain housing with services establishments. This legislative change was estimated to decrease EW costs 0.90% for the MSHO / MSC+ / CBP populations, as estimated by DHS.

Adjustment for Reduction Related to Provider Rate Reduction

The provider rate reduction within the new legislation requires a 2.58% reduction in EW rates.

DEVELOPMENT OF CALENDAR YEAR 2010 EW ADD-ON BASE RATES

The following adjustments were made to the October through December 2009 EW Add-on base rates to develop the CY 2010 EW Add-on base rates, resulting in a 4.25% increase in base rates.

Trend

An annual trend adjustment of 4.25% was used to reflect EW cost trends from 2009 to 2010. This annual statewide trend for EW monthly costs per recipient was developed from information provided by the Reports and Forecast Division of DHS.

Calendar Year 2010 Base Rates

Table 2 contains the resulting MSHO / MSC+ EW base rates by region for CY 2010.

Table 2 MSHO / MSC + Elderly Waiver PMPM Base Rates For Calendar Year 2010	
Region	Base Rate
Hennepin / Metro	\$1,156.31
Non-Metro	1,198.32

Table 3 contains the resulting CBP EW base rates by region for CY 2010.

Table 3 County Based Purchasing Elderly Waiver PMPM Base Rates For Calendar Year 2010	
Region	Base Rate
Hennepin / Metro	\$1,144.75
Non-Metro	1,186.34

DEVELOPMENT OF CALENDAR YEAR 2010 EW ADD-ON FINAL RATES

The following factors were applied to the CY 2010 EW Add-on base rates to develop the CY 2010 EW Add-on final rates.

Age / Gender Factors

We developed the age / gender factors to be applied to the CY 2010 EW Add-on base rates using the age / gender relationships underlying the MSC CY 2005 EW cost experience PMPM used to develop the EW Add-on base rates. The age / gender factors are unchanged from those used to develop the 2009 EW Add-on final rates.

Medicare / Non-Medicare Factors

Less than 4% of total statewide EW membership is not dually covered by Medicare. This membership base is not credible to produce separate rates for non-dual eligibles, therefore, EW rates are the same regardless of Medicare status.

Calendar Year 2010 EW Add-on Final Rates

The CY 2010 EW Add-on final rates equal the appropriate base rate times the appropriate age / gender factor. The CY 2010 EW Add-on final rates for MSHO / MSC+ are found in Exhibit 1A. The CY 2010 EW Add-on final rates for CBP are found in Exhibit 1B.

CAVEATS AND LIMITATIONS

This letter was prepared specifically for DHS and the development of CY 2010 EW Add-on rates for MSHO, MSC+, and CBP and may not be appropriate for other purposes. This report is for internal use only and should only be viewed in its entirety. The letter assumes the reader is familiar with the MSHO, MSC+, and CBP programs, managed care rate setting, long term care services and the Minnesota Medicaid program. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work.

The results presented in this letter are estimates only based on historical FFS experience and data from the Reports and Forecasting Division of DHS. Actual CY 2010 experience will vary from these estimates and will only be known with certainty after sufficient time has passed so that all CY 2010 experience has been completed.

This material assumes that the reader is familiar with Minnesota's Medicaid long term care and acute care programs, their benefits, eligibility, administration and other factors. The material was prepared solely to provide assistance to the Minnesota Department of Human Services in setting rates for the MSHO, MSC+, and CBP programs. It may not be appropriate for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. This material should only be reviewed in its entirety.

We have relied on data and information supplied to us by DHS. We have not audited or attempted any independent verification of such data. If this data is incomplete or inaccurate, then our conclusions will be incomplete or inaccurate.

This letter and its use are subject to the terms of the contract between Milliman and DHS effective July 1, 2009.



Pam, please call us with any questions regarding this information.

Sincerely,



Eric P. Goetsch, FSA, MAAA
Principal and Consulting Actuary

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Exhibit 1A

**Minnesota Senior Health Options and Minnesota Senior Care Plus Programs
Elderly Waiver Add-On Rates (PMPM)**

January 2010 to December 2010 Contract Period

Area	Males			Females		
	65-74	75-84	85+	65-74	75-84	85+
Hennepin/Metro	\$968.73	\$1,052.45	\$1,081.75	\$1,035.87	\$1,087.49	\$1,594.83
Non Metro	1,256.23	1,102.77	1,293.79	966.19	1,137.26	1,408.06

Exhibit 1B

**County Based Purchasing Program
Elderly Waiver Add-On Rates (PMPM)**

January 2010 to December 2010 Contract Period

Area	Males			Females		
	65-74	75-84	85+	65-74	75-84	85+
Non Metro	\$1,243.67	\$1,091.74	\$1,280.86	\$956.53	\$1,125.89	\$1,393.98